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SUBJECT: IMF TEAM TAKES THE PULSE OF THE NEW LEBANESE GOVERNMENT
(ECONOMIC WEEK IN REVIEW, JANUARY 25 - FEBRUARY 7, 2010)

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IMF TEAM TAKES THE PULSE
OF THE NEW GOVERNMENT

11. (SBU) An IMF mission visited Beirut February 1-4 to engage the new government on its reform strategy and discuss post Emergency Post-Conflict Assistance (EPCA) cooperation. The mission met with the finance, economy, energy, and telecommunications ministers, as well as with Central Bank of Lebanon officials and two major commercial banks (Audi and Byblos Bank) to discuss Lebanon's vision and progress on reform. Outgoing mission chief Domenico Fanizza said the government wants to maintain strong cooperation with the IMF but wants more time to determine the nature of such cooperation. The ministers also need to translate their vision into an action plan to be endorsed by the cabinet in order to start implementation, IMF Economist Najla Nakhle added. IMF Resident Representative Eric Mottu told econoff the GOL had expressed no interest in a standby agreement or other formal IMF program.

GOL RENEWS MOBILE OPERATORS
MANAGEMENT CONTRACT

12. (SBU) Gilbert Najjar, the telecom ministry official responsible for the two GOL-owned mobile companies, said the cabinet extended the management contract for the two operators for six months starting February 1, 2010. According to Najjar, this period will be used to gather data on the mobile sector and enable Telecom Minister Charbel Nahas to outline options for the privatization of the two mobile companies and submit them to the cabinet. "No one said we will delay privatization or that privatization will not take place," Najjar insisted. Nahas told us separately that he would have an idea of how privatization would be structured before the end of May 2010, and he indicated he was inclined to bring in a strategic investor to take management control while selling the remaining GOL stake on the Beirut stock exchange.

LEBANON BREAKS RECORD IN
2009 FOR NUMBER OF TOURISTS

13. (U) The number of tourists visiting Lebanon in 2009 reached a new

record of over 1.85 million, up by 38.9% compared to 2008, according to the ministry of tourism (MOT). The previous record dated to 1974, when 1.4 million tourists visited the country. Tourists (including Lebanese expatriates) from the Arab world accounted for 42.5% of total tourists in 2009, followed by Europe (24.5%), Asia (14.3%), the Americas (12.3%), Oceania (3.5%), and Africa (2.3%). Hotel occupancy rates throughout Lebanon reached 39.1% in 2009, and tourist spending rose by 13% compared to 2008. Beirut's international airport also witnessed record numbers, as the number of passengers reached 4.98 million, up 22% from 2008. The MOT estimated the country's annual income from tourism at around \$7 billion, or around 20% of GDP. At the beginning of last year, the MOT had estimated the number of tourists would reach around two million in 2009.

GOL TO APPOINT NEW BANKING
CONTROL COMMISSION BOARD

¶4. (SBU) The cabinet must appoint a new board for the Banking Control Commission (BCC), an independent entity that supervises the banking sector, as its term of office ended January 31, 2010. Unlike the Council for Development and Reconstruction board -- whose term ending December 31, 2009 was extended by the cabinet until a new board is appointed -- the current BCC board must leave office by law immediately upon the expiration of its mandate. Dr. Youssef El-Khalil, director of financial operations at the Central Bank of Lebanon (CBL) told us the cabinet placed the appointment of a new BCC board on its weekly agenda, but it has not taken action yet. Further delays will affect BCC's ability to set policy for banking supervision, he said.

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¶5. (U) Administrative appointments in Lebanon are highly politicized and require political consensus, so the GOL currently suffers from numerous vacancies in senior positions. Hizballah Minister of Administrative Reform Mohammed Fneish is reportedly working on a streamlined mechanism, which will need cabinet approval, for making such appointments.

OPIC/CITI EXTEND ADDITIONAL
LOAN FACILITY TO BANKMED

¶6. (SBU) Citi Country Officer for Lebanon Walter Siouffi told us the Overseas Private Investment Corporation (OPIC) and Citi signed a \$40 million 13-year term loan facility for BankMed (one of Lebanon's top five commercial banks) at the end of December 2009. This amount will be used for lending to small and medium-sized enterprises (SMEs), for mortgages, and for consumer finance. This is the second time that BankMed has benefitted from Citi/OPIC loan facilities, as it received \$50 million in January 2007. With this new agreement, Citi and OPIC have extended \$300 million in term loan facilities (for up to 15 years) to selected commercial banks in Lebanon since January 2007.

MERRILL LYNCH: LEBANON'S EXTERNAL
DEBT REVISED TO "UNDERWEIGHT"

¶7. (U) Merrill Lynch revised its recommendation on Lebanon's external debt downward to "underweight" from "market weight" in its model portfolio of emerging markets debt and reduced Lebanon's market weight to 2.1% in January 2010, down significantly from its recent high of 7.4% in April 2009. Merrill Lynch had upgraded Lebanon to "market weight" following the Doha Accord that restored political stability in May 2008.

LEBANON'S QUALITY OF LIFE ONE
OF THE HIGHEST IN THE MENA REGION

¶8. (U) Lebanon ranked 112 out of 194 countries worldwide and 4 out of 18 MENA countries in International Living Magazine's annual Quality of Life Index. In comparison, Lebanon ranked 105 out of 195

countries worldwide and 4 out of 20 MENA countries in 2009. Lebanon improved in the culture and leisure, economy, environment, and health categories, while it remained unchanged in the freedom, safety, and risk categories. Lebanon dropped in the cost of living -- indicating a rise in the cost of living and overall prices -- and infrastructure categories. The survey is conducted at the beginning of each year, and therefore represents expectations for quality of life in the coming year.

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